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Vietnam Equity Holding (VEH) Monthly Update — July 2012

Macroeconomic Update

Vietnam continues to improve its inflation situation with the annualized CPI falling to 5.4% from 6.9% in the previous month, though the country experienced another month of deflation at -0.29% M-o-M despite a 5% increase in electricity prices and increases in fuel prices throughout the month due to increasing global prices. However, with the latest interest rate cut at the end of June, bringing the total to 500 basis points cut since March, and the aforementioned increases in prices for necessities, inflation in August is expected to return to positive territory, and credit growth is expected to increase from a very low 0.93% YTD.

Droughts in grain and oilseed producing areas are causing corn, soy, and wheat prices to rally while record rice production in major exporting countries and Thai government price flooring has distorted rice markets. The market is predicting the dear prices (and high-quality) for Thai rice to fall as the government begins to release its stores in anticipation of the next harvest while Vietnamese rice prices have been gaining due to large orders from Indonesia and West Africa. The effect of these price movements and unexpected weather patterns on food inflation in Vietnam should be minimized as many Vietnamese consumers actually prefer the Thai rice, while profits of Vietnamese producers should still increase from the large orders.

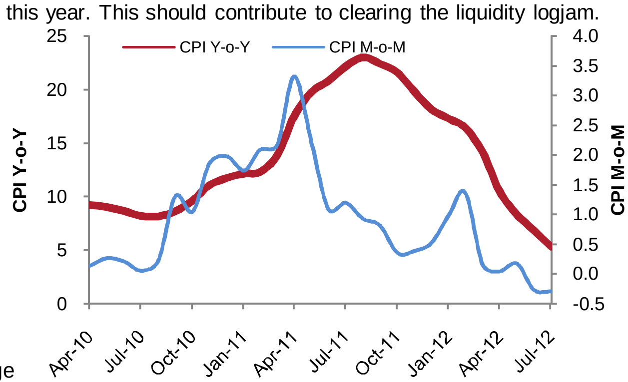
Positive monthly statistics would include the continued strength of the Vietnam Dong (VND), a slight trade surplus, and efforts by banks to reduce interest rates. These efforts were prompted by a directive from the State Bank of Vietnam (SBV) for banks to reduce interest rates on all outstanding loans to below 15% p.a. by July 15, though there were no penalties for not complying. Accordingly, the banks made a slight effort to reduce rates but are apparently more concerned with finding enough cash for long-term lending, especially, and this is a nice development, for home loans as banks are reporting a marked increase in mortgage applications of about 20-30%, since the policy interest rate cuts began in March. Since state-owned enterprises (SOEs) and private businesses account for most of the non-performing loans (NPLs) in the economy (according to the SBV, at 8.6% of total outstanding loans but could be higher), this increase in long-term debt at the homeowner level is welcome and is being encouraged by the SBV which said that it is willing to inject funds in certain banks and even consider lowering interest rates further to help increase credit growth. The SBV has since increased the credit growth limits at some banks to as high as 27%, dependent upon their individual loan book health and availability of funds. Needless to say, banks with significant NPLs are not being considered for increased credit growth limits.

With this shift in consumers' appetite to real estate, we see that they have been holding back on long-term investments until both rates and prices reduce while also being unwilling to spend on retail goods and services. Unfortunately, as a significant portion of paychecks will now be taken up by loan payments, spending in the domestic economy will likely remain low, resulting in continued weakness in the domestic economic growth. However, we are relieved to see consumers getting off the sidelines in some form.

The restructuring process of SOEs, generally divestment of non-core business interests and improvements of core-businesses, and of bank NPLs has begun to stall simply because those two groups do not want to divest or write-off investments when prices are so low and in the absence of an effective debt trading market. Thus, the impetus shifts to the government to create avenues to facilitate the needed restructurings as NPLs are currently acting as a drag on lenders' ability to issue new commercial loans. We are expecting the government to issue a decree detailing an acceptable practice for transferring bad debts off balance sheets some time later this year. This should contribute to clearing the liquidity logjam.

Indicators	Jul-12	YTD	Y-o-Y	2011
GDP Growth (%)		4.4%		5.9%
Inflation (%)	-0.3%	2.2%	5.4%	18.1%
Exports ($Bn)	$9.6	$62.9	19.0%	$96.2
Imports ($Bn)	$9.5	$63.0	7.3%	$105.8
Trade Deficit ($Bn)	-$0.1	$0.1	-99.1%	$9.5
Disbursed FDI ($Bn)	$0.9	$6.3	-0.8%	$11.0
VND/USD	20,885	-0.7%	1.3%	21,036

Source: General Statistics Office of Vietnam (GSO), Vietcombank



Equity Market

The Vietnam Index (VNI) was subdued in July. The VNI fell 1.9% in VND terms but gained 1.1% in EUR terms due to slight VND appreciation and EUR depreciation. Average daily traded volume, at approximately 35 million shares, was low in comparison to the previous month of 47 million shares and the average over the first half of the year. Foreign investors returned to be net buyers on the HOSE, but not by significant amounts. Though financial results of most companies in the first half of 2012 were largely disappointing, market participants are now pointing to strong profits at a few large companies such as Vinamilk (VNM) and Phu My Fertilizer (DPM) as well as increasing loan activities at certain healthy banks like Military Bank (MBB) as cause for optimism. Stocks with dividend yields above 10% have also begun receiving attention due to the fact that these dividends are higher than the current bank deposit rate and because the VND has been so stable compared to the USD, making it more realistic to factor in dividends when considering stocks. During the month, the State Securities Commission announced that capital requirements for listings will be increased starting in September on both of the country's bourses to improve the quality of newly-listed companies. We remain bullish for the long-term prospects of the Vietnam stock market and expect significant upward movement in Q4 or in 2013, but for the medium-term, the market seems to have priced in all interest rate reductions and is apparently waiting on increased economic growth, which should come with increasing credit growth in Q3 and Q4 of this year.

Real Estate Market

By far the best development of the past year has been the recent news that home loan applications have risen significantly at banks since March. After many months of being shut out of the real estate market by high interest rates, high prices, and past regulations, homeowners now have access to mortgages at attractive rates compared to last year, and reduced prices due to the drop off in demand over the past months. It is apparent and almost confirmed that there was a significant mismatch of available funds between loans to the supply side (developers) and loans to the demand side (homebuyers). Though this is not yet a confirmed signal for a recovery in the real estate market, it is definitely a step in the right direction. Unfortunately, it seems that developers still do not understand the market they are building for as the World Bank has estimated that only about 5% of the population in the largest cities (not including the countryside) can actually afford units in projects currently being offered and planned by the larger developers. Thus, we attribute the increased amount of mortgage applications to middle class Vietnamese buying homes for residence in the few existing affordable locations. The high-end segment may still be making sales, but it appears to be increasingly difficult for buyers to then lease the units out, with several buildings competing for the few renters who can afford the market rates in that segment. Overall, we remain confident in the rebound of the real estate market as a whole and maintain our heavier weighting towards large land banking companies and affordable housing developers.

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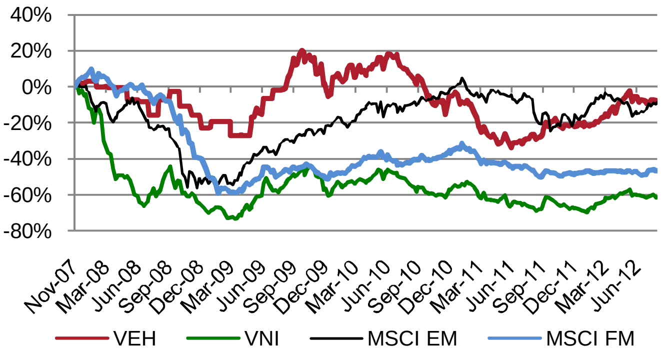
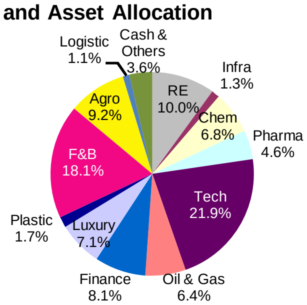
NAV per share	**€2.15**
Outstanding Shares	**21,715,510**
Share price	**€1.36**
Discount	**36.8%**
Total NAV	**€46,697,203**

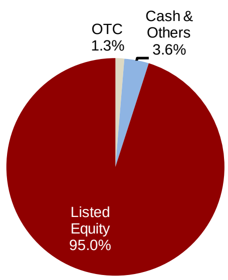
Performance

%	Monthly	YTD	Year End 2010	Since Inception
NAV per share	1.5	18.4	1.7	-8.1
Share price	-2.9	30.8	-28.4	-48.7
VN Index in EUR	1.1	25.3	-12.8	-60.4
MSCI EM in EUR	4.6	9.5	-10.0	-7.8
MSCI FM in EUR	3.9	1.3	-18.6	-46.0



Portfolio by Sector and Asset Allocation





VEH Update

In July, VEH's un-audited NAV per share was €2.15, representing an increase of 1.5% from €2.12 at the end of the prior month. Over the same period, the VN Index increased 1.1% in EUR terms (down 1.9% in VND terms). The NAV increase was mainly due to a 2.9% unrealized FX gain from the depreciation of the EUR against the VND offset by a 1.7% loss in portfolio value from the decrease in price of listed stocks.

Share Buyback Program

The NAV was also supported by 0.14% through the implementation of the share buyback program in July, during which 30,000 shares were repurchased.

Investment Manager Update

We continue to screen for opportunities to rebalance into small and mid cap stocks with strong fundamentals and higher reward/risk ratios to capitalize on the potential upside gain from an anticipated long-term rebound in the Vietnam stock market.

VN Index – last 6 months: *Bloomberg*

Top Holdings	% of NAV
FPT Corp (FPT)	18.1%
Vinamilk (VNM)	18.1%
Phu Nhuan Jewelry (PNJ)	7.1%
Development Investment Corp (DIG)	5.9%
Dabaco Corp (DBC)	4.3%

Foreign Investors' Net Buy on HOSE

Date	Volume (Mn shares)	Value ($Mn)
Jul-12	5.8	4.0
Jun-12	-32.7	-31.2
May-12	11.4	6.1
Q2 2012	-47.2	-60.5

About Saigon Asset Management

Established in 2007 in the Cayman Islands with representative offices in Ho Chi Minh City, SAM manages Vietnam Equity Holding (VEH) and Vietnam Property Holding (VPH) and employs over twenty professionals with diverse international financial backgrounds and proven track records.

Louis Nguyen
Chairman & CEO

Peter Dinning
Managing Director
Real Estate Investments

Chinh Hoang
Director
Equity Investments

Kevin Flaherty
Managing Director
Energy & Natural Resources Investments

Antony Nezic
Managing Director
Impact & Agriculture Investments

Structure	Cayman Islands registered closed-end funds	
Funds launch	November 2007	
Duration	5 Years (subject to shareholder vote for extension)	
Listed	Frankfurt Stock Exchange (FSE) and Xetra	
Management Fee	2% of NAV	
Performance Fee	20% of gains over 8% hurdle with high water mark	
Auditor	Grant Thornton	
Legal Counsel	Reed Smith LLP & Appleby	
Administrator Custodian	Deutsche Bank (Cayman) Ltd Deutsche Bank AG, Ho Chi Minh City Branch	
Clearing/Settlement	Euroclear or Clearstream	
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Reuters	**VEH:** 3MS.DE	**VPH:** 3MT.DE
ISIN	**VEH:** KYG936251043	**VPH:** KYG9361R1074

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